

IN THE CHANCERY COURT FOR LEWIS COUNTY
AT HOHENWALD, TENNESSEE

IN RE:)
)
SENTINEL TRUST COMPANY) No. 4781
)
)

**COMMISSIONER-IN-POSSESSION'S PETITION FOR APPROVAL OF
PAYMENTS TO CERTAIN BOND HOLDERS**

The Commissioner of the Tennessee Department of Financial Institutions, as
Commissioner-in-possession of Sentinel Trust Company ("Sentinel"), by and through his counsel
of record, the Attorney General and Reporter, hereby petitions this Court for approval of certain
payments due July 1, 2004 to bondholders as set forth more fully herein.

1. Sentinel Trust Company ("Sentinel") is a Tennessee corporation, located in
Hohenwald, Lewis County, Tennessee, engaged in fiduciary activities and subject to regulation
by the Commissioner under the Tennessee Banking Act pursuant to Tenn. Code Ann. § 45-1-124.

2. On May 3, 2004, the Commissioner issued an Emergency Order directing Sentinel
to cease and desist from engaging in unsafe and unsound banking practices.¹ That Order found
that Sentinel had used pooled fiduciary funds to provide operating capital for non-related
defaulted bond issues, thereby creating a fiduciary cash shortfall that greatly exceeded Sentinel's

¹A copy of this Order is attached as Exhibit 1 to the Commissioner's previous Petition for Approval of
Payments to Bondholders, filed May 27, 2004.

current operating capital and that Sentinel had failed to reconcile fiduciary cash and corporate cash accounts in a timely and accurate fashion and to keep accurate books and records.

3. On May 18, 2004, the Commissioner of the Tennessee Department of Financial Institutions ("Commissioner") took emergency possession of Sentinel pursuant to Tenn. Code Ann. §§ 45-2-1502(b)(2) and (c)(1). That same day, the Commissioner appointed Receivership Management, Inc. as the Receiver for Sentinel Trust Company pursuant to Tenn. Code Ann. § 45-2-1502(b)(2).

4. Since taking possession of Sentinel, the Commissioner, through his staff and the appointed Receiver, has verified that Sentinel had a fiduciary cash shortfall of at least \$5,789,011 as of December 31, 2003. This fiduciary cash shortfall subsequently increased to an amount ranging from \$7,612,218 to \$8,430,722, as of May, 18, 2004, the date of possession.²

5. The Commissioner has further determined that Sentinel is insolvent in an amount of at least \$6,225,000; does not have sufficient liquid assets to pay off its bondholders and creditors; and, that there is no viable plan for the infusion of sufficient capital to eliminate Sentinel's substantial deficiency.³

6. In light of this information and the record as a whole, the Commissioner determined that liquidation of Sentinel is necessary and appropriate. Accordingly, on June 18,

²Apparently, Sentinel used at least two different accounting systems: Quick Books and ACCUTrust fiduciary accounting system. The Quick Book records reflect a shortfall of \$7,612,218, while the ACCUTrust records reflect a shortfall of \$8,4430,722 as of May 18, 2004. The Receiver and the Commissioner's staff are still in the process of trying to reconcile these numbers. See Exhibit A to Affidavit of Wade McCullough, attached hereto as Exhibit 1 and incorporated herein by this reference.

³*Id.*

2004, the Commissioner issued a Notice of Liquidation of Sentinel Trust Company in accordance with the provisions of Tenn. Code Ann. §§ 45-2-1502(c)(2) and 1504.⁴

7. Tenn. Code Ann. § 45-2-1504(a)(3) provides that

[i]n liquidating a state bank, the commissioner may exercise any power of the office of commissioner, but shall not, without the approval of the court, in which notice of possession has been filed; . . . [m]ake any payment on any claim, other than a claim upon an obligation incurred by the commissioner, before preparing and filing a schedule of the commissioner's determinations in accordance with this chapter.

8. Sentinel Trust serves as the registrar and paying and /or escrow agent on approximately 99 municipal bond issues. Sentinel's records show that as of May 18, 2004, these bond issues had approximately \$35,588,900 in fiduciary assets invested in U.S. Treasury bills, bonds, notes and U.S. SLGs (State, Local Government Series/Bureau of Public Debt). Ten of these bond issues have interest and/or principal payments due July 1, 2004. With respect to all but one of these issues, the Commissioner has determined that the entirety of the funding necessary for the July 1 payments is still due from the issuers. Assuming that these monies are timely received, then the Commissioner will be able to make the July 1 payments for nine of these municipal bond issues in full without having to use any funds from the pooled fiduciary account.⁵

9. The one remaining bond issue, which is from Colquitt County, Georgia, has an interest payment of \$13,956.25 due July 1, 2004. Sentinel's records indicate — and the

⁴A copy of this Notice of Liquidation is attached hereto as Exhibit 2 and incorporated herein by this reference.

⁵See Affidavit of Wade McCullough, Exhibit 1.

Commissioner has verified — that this bond issue had a fiduciary asset in the nature of a U.S. Treasury Bill in the amount of \$114,885, with a maturity date of July 1, 2004.

10. The Commissioner has determined that the proceeds from this fiduciary investment asset is designated for the payment of the \$13,956.25 interest payment on the Colquitt County bond issue. Furthermore, the proceeds are clearly more than sufficient to make this payment and, therefore, the Commissioner will not need to use any funds from the pooled fiduciary account.⁶

11. Additionally, the Commissioner has determined that there is one bond issue, which has a mandatory redemption date of July 15, 2004. The issuer of that bond was in the process of refinancing at the time the Commissioner took possession on May 18, 2004. Refinancing was completed and the proceeds, in the amount of \$7,724,465.10, were deposited with Sentinel on June 9, 2004. Pursuant to the terms of the mandatory redemption provision, these funds are to be paid to the bondholders on July 15, 2004. This payment will clearly not require the Commissioner to use any of the funds from the pooled fiduciary account.⁷

Accordingly, pursuant to Tenn. Code Ann. § 45-2-1504(a)(3), the Commissioner hereby requests this Court's approval to pay the July 1 and July 15, 2004 payments on the bond issues as set forth herein, as such payments will not require the use of any of the funds in the pooled fiduciary account.

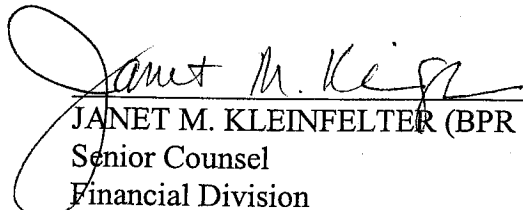
⁶*Id.*

⁷*Id.*

The Commissioner further respectfully requests an immediate hearing on this petition.

Respectfully submitted,

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BOND ISSUES DUE FOR A JULY 1 PRINCIPAL AND/OR INTEREST PAYMENT

<u>Number of issues</u>	<u>Bond #</u>	<u>AccuTrust Balance as of 5-18-2004</u>		<u>Capacity</u>	<u>Next Principal Due</u>	<u>Amount</u>	<u>Next Interest Due</u>	<u>Amount</u>	<u>Total Due</u>	<u>Source of funding</u>
<u>CORPORATE ISSUES</u>										
1	21	28,767.18	Cave Springs 1994		07/01/2004	25,000.00	07/01/2004	60,987.50	85,987.50	28,767.18 from SunTrust Pooled Account, balance, 57,220.32 due from debtor
		28,767.18		T,R,P/A						PARTIAL PAYMENT
2	53	75,543.50	Dade 96 Bond Fund		01/01/2005		07/01/2004	225,681.25	225,681.25	75,543.50 from SunTrust Pooled Account, balance, 150,137.75 due from debtor
		150,998.94	Dade 96 DSR Fund							PARTIAL PAYMENT
		226,542.44		T,R,P/A						
3	12	34,567.16	Dublin		01/01/2005		07/01/2004	103,275.00	103,275.00	34,567.16 from SunTrust Pooled Account, balance 68,707.84 from debtor
		34,567.16		T,R,P/A						PARTIAL PAYMENT
4	167	170,435.87	Jackson OH Bond Fund		07/01/2004	60,000.00	07/01/2004	172,998.98	232,998.98	170,435.87 from SunTrust Pooled Account, balance,
		214,617.82	Jackson OH DSR Fund							PARTIAL PAYMENT
		17,124.07	Jackson OH Rpr							
		402,177.76		T,R,P/A						
5	214	4,340.01	Lowndes A		01/01/2008		07/01/2004	41,093.75		4,340.01 from SunTrust Pooled Account, balance,
			Lowndes B		01/01/2007			59,250.00		from debtor \$96,003.74
		4,340.01							100,343.75	
		696,394.55	TOTAL CORPORATE Funds reported in SunTrust Pooled Account						748,286.48	DUE TO BE PAID
			748,286.48 DUE TO BE PAID FOR CORPORATE ISSUES							
			313,653.72 Total Corporate Funds reported in Bond Funds in SunTrust Pooled Account							
			434,632.76 Due from Corporate Issuers for potential partial payments of interest							

BOND ISSUES DUE FOR A JULY 1 PRINCIPAL AND/OR INTEREST PAYMENT (continued)

<u>Number of issues</u>	<u>Bond #</u>	<u>AccuTrust Balance as of 5-18-2004</u>		<u>Capacity</u>	<u>Next Principal Due</u>	<u>Amount</u>	<u>Next Interest Interest Due</u>	<u>Amount</u>	<u>Total Due</u>	<u>Source of funding</u>
<u>MUNICIPAL ISSUES*</u>										
1	8	-1,739.52	Adamsville 94	R,P/A	01/01/2005		07/01/2004	11,292.50	11,292.50	municipality
2	9	0.00	Adamsville 94	R,P/A	01/01/2005		07/01/2004	2,835.00	2,835.00	municipality
3	166	0.00	Ashland City 99	R,P/A	07/01/2004	75,000.00	07/01/2004	43,819.37	118,819.37	municipality
4	177	1,262.50	Catoosa 00	R,P/A	07/01/2004	55,000.00	07/01/2004	46,022.50	101,022.50	municipality
5	98	174.54	Colquitt 97*	R,P/A	01/01/2005		07/01/2004	13,956.25	13,956.25	\$114,885 Treas Bill mat 7-1-2004(2)
6	207	-411.25	Livingston 02	R,P/A	07/01/2004	110,000.00	07/01/2004	68,439.37	178,439.37	municipality
7	204	1.00	Selmer 02	R,P/A	07/01/2004	335,000.00	07/01/2004	38,522.50	373,522.50	municipality
8	190	-1,461.44	Warren County 93	R,P/A	01/01/2005		07/01/2004	48,045.00	48,045.00	municipality
9	157	-250.00	Woodlawn 99	R,P/A	01/01/2005		07/01/2004	14,141.25	14,141.25	municipality
		-2,424.17	TOTAL			575,000.00		287,073.74	862,073.74	
		1,437.04	<u>Reported in SunTrust Pooled Fund on 5-18-2004 for Municipal Issues.</u>							
		13,956.25	<u>Funds from maturity of fiduciary assets to pay Municipal debt service due 7-1-2004. (2)</u>							
		848,117.49	<u>Balance Due from Debtor to pay 7-1-2004 debt service.</u>							
		862,073.74	<u>Total due to be paid 7-1-2004 for municipal issues</u>							

CALLS

NONE KNOWN AT THIS TIME.

OPTIONAL CORPORATE REDEMPTION Due 7-15-2004

1	64	251.63	Jacksonville, FL Series 1996 Bonc	07/15/2004	7,600,000		124,465.10	7,724,465.10	
		34,230.05	Jacksonville, FL Series 1996 Rpr & Rpl Fund						
		34,481.68	Reported in SunTrust Account on 5-18-2004						
			Received \$7,724,465.10 on 6-9-2004. Continuing to hold funds in SunTrust Pooled Acct# 4049233.						

*These issues do not have a named trustee.

CODE: T = TRUSTEE
R = REGISTRAR
P/A = PAYING AGENT
E/A = ESCROW AGENT